Nova Scotia Municipal Finance Corporation

25th Annual Report
2005

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Nova Scotia Municipal Finance Corporation

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2005

Nova Scotia

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Message from the Chair

As Chair of the Nova Scotia Municipal Finance Corporation it is my pleasure to present the Nova Scotia Municipal Finance Corporation's 25th annual report, and my first annual report, for the 2004–2005 fiscal year.

The corporation had a very successful year in 2004–2005. During the course of the year, the corporation was the successful bidder in the financing for the $110-million Halifax Harbour Solution Project. Winning the bid proves that the corporation provides competitive financing to its clients.

In addition to the $110-million debenture issue for Halifax Harbour Solution project the corporation placed two debenture issues for over $57 million and ended the fiscal year with a net income of $247,285. This year, yields in capital markets were once again at historic lows. Rates for 10-year benchmark Government of Canada bonds low for the year was 4.116 per cent, with an average price of 4.573 per cent. Government of Canada two-year benchmark bonds issued on December 8, 2004, were slightly higher than last year, hitting a low of 2.954 per cent and an average cost of 3.123 per cent.

In August 2004 the corporation conducted an evaluation of its services and programs to ensure that the goals and objectives of the corporation match those of our clients. The response rate for the evaluation was over 65 per cent. The results confirmed that our clients are satisfied with the service we provide for low-cost long-term capital financing. The results also supported the corporation's movement toward financial management capacity building in municipalities in Nova Scotia. To this end, the corporation has developed best practices for financial management, has drafted a debt affordability model, and continues to partner with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations on a number of projects. Results from the survey have been used as benchmarks for a number of performance measures that have been incorporated in the corporation's business plan.

At this time I would like to thank the board members, the staff of the corporation, and the staff of the provincial Departments of Service Nova Scotia and Municipal Relations, Finance, and Justice for their advice and assistance throughout the year.

Greg Keefe, B.Comm, CMA
Chair

How the Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989. The legislative authority for the corporation can be found in the Municipal Finance Corporation Act.

Mission and Purpose

The mission of the corporation is to provide financing to its clients for approved capital projects at competitive rates, within acceptable risk parameters, and to provide advice and assistance to clients regarding financial management.

The corporation was created with the objective of providing financial assistance for municipalities, municipal enterprises, school boards, and hospitals through a centralized borrowing authority. The way in which the corporation fulfils its purpose is through the issuance of pooled debenture issues. Pooling of borrowing requirements eliminates the need for individual municipalities to negotiate and administer their own debenture issues.

All municipalities and municipal enterprises must finance their external capital requirements through the corporation. Exceptions exist for projects that are financed through short-term financing and certain projects for which funds may be borrowed from other governments. Most school board and hospital capital projects are financed directly by the Province of Nova Scotia.

The corporation partners with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations, as well as with other professional associations in the building of financial management capacity in local governments across Nova Scotia.

Administration

The corporation is governed by a Board of Directors appointed by the Governor-in-Council. The Municipal Finance Corporation Act requires that 40 per cent of the board members be municipal representatives. There are currently five directors on the board: two members are senior public servants, two members are appointed upon the recommendation of the Union of Nova Scotia Municipalities, and the fifth member is appointed from the community at large.

The corporation is self-funded; the Minister of Service Nova Scotia and Municipal Relations is required, by legislation, to approve the administrative budget. The corporation levies fees on loans made to its clients to help offset the administrative expenses of the corporation. These fees coupled with interest revenue earned by the corporation on its short-term investments ensure that the corporation operates in a positive position.

Support staff and resources of the provincial Departments of Finance and Service Nova Scotia and Municipal Relations have been provided to the corporation. The corporation contracts with the Department of Justice for the provision of legal services. The advice and assistance given by all three provincial departments are a valuable contribution to the operation of the corporation.

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7th Floor, Provincial Building
1723 Hollis Street
Halifax, Nova Scotia B3J 2M3

Mailing address:
P.O. Box 850, Station "M"
Halifax, Nova Scotia B3J 2V2

Telephone: (902) 424-4590
Fax: (902) 424-0525
Website: http://www.gov.ns.ca/nsmfc/

Directors and Officers *(as at March 31, 2005)*

Directors of the Corporation

Greg Keefe, B. Comm, CMA, Chair
Deputy Minister
Department of Service Nova Scotia and Municipal Relations

Keith Hunter
Warden
Municipality of the County of Cumberland

Bruce Hetherington
UNSM-Appointed Representative
Halifax Regional Municipality

Elizabeth A. Cody
Assistant Deputy Minister
Nova Scotia Department of Finance

James E. Radford, MBA, CA.
Business Consultant
Martins Point, Nova Scotia

Officers of the Corporation

Chair
Greg Keefe, B.Comm, CMA
Deputy Minister
Department of Service Nova Scotia and Municipal Relations

Chief Executive Officer and Treasurer
S. Jane Fraser, B.Comm, CGA, MPA

Corporate Secretary
Dianne Grant
Policy Analyst
Department of Service Nova Scotia and Municipal Relations

General Counsel
Pauline Doucette, LLB
Solicitor
Department of Justice

Assistant Treasurer
Roy Spence
Director, Liability Management and Treasury
Department of Finance

Directors' Report

Planning for the corporation is formulated in accordance with the client's needs. The corporation must ensure that it has ready access to capital markets and that it has the financial and administrative capacity to respond to local governments' demand for capital infrastructure financing. In order to ensure that the corporation is successful in meeting the demand for capital infrastructure financing, the corporation's Board of Directors approves a business plan on an annual basis.

The 2004–2005 business plan reaffirms our mission statement to provide competitive capital financing for approved projects to municipalities, municipal enterprises, school boards, and hospitals.

Business planning is an evolving process. During the course of the year, outcomes, measures, and indicators are evaluated for effectiveness and responsiveness to the corporation's longer-term strategic vision. Through the evaluation process, outcomes and measures may be changed to ensure that they are within the corporation's area of responsibility, the corporation can influence the outcome, and the corporation's performance can be measured. During the summer of 2004, the corporation conducted a survey of its clients. One of the purposes of the survey was to gather data that can form the basis of benchmark data for performance measurement in the corporation's business plan for 2005–2006.

The strategic goals of the corporation are supported by the operational priorities of the corporation. The operational context for the corporation's activities are strongly influenced by its ability to

- identify client needs and respond to them
- keep abreast of developments in local government capital finance
- maintain financial self-sufficiency

The annual report reflects the corporation's results as measured against the 2004–2005 business plan. Along with measuring the longer-term strategic goals of the corporation, the annual report also includes operational results. These operational measures are important in ensuring that the corporation can meet its priorities and goals.

Business Plan and Accountability Report

The business plan features four strategic goals, which are identified below. Outcomes, measures, and results are also included.

Strategic Goal 1

To work with clients, the province, and the investment community in providing competitive capital financing to our clients for their particular debt structure and timing needs

Outcome:
Competitive financing to our clients in a timely and responsive manner

Measures:
Responsiveness of capital markets to MFC debenture issues

Results:
The corporation responded to all client requests in a timely fashion. Debentures issued accommodated all requests for terms and structures. Rates received were the lowest in the history of the corporation. Low rates are a function of market conditions and pricing off the Province of Nova Scotia spreads.

Operational results:

- Issued 28 loans to 22 municipalities and municipal enterprises
- Issued $167,673,679 in debentures and on-loaned a similar amount to clients
- Administered $1,900,000 in short-term financing pending issuance of a debenture
- Administered $590 million in outstanding debentures, which included the payment of debenture interest
- Administered $590.3 million in outstanding loans to municipalities, school boards, and hospitals

Strategic Goal 2

To provide a sustainable source of financing to clients through prudent management of all financial aspects of the corporation, which includes credit risk and asset/liability management

Outcome:
Ready access to capital in a timely manner at competitive rates

Measure:
Willingness of capital markets to price the MFC's debenture issues at competitive spreads off the Province of Nova Scotia

Results:
All three debenture issues were priced off the Province of Nova Scotia spreads. The corporation successfully competed against six other bidders for financing of the $110-million Halifax Harbour Solution Project. Their has never been a default by the MFC or any of its clients.

Operational results:
- Reviewed all municipal requests with Service Nova Scotia and Municipal Relations to ensure that the loans to a municipal unit did not pose a credit risk to the corporation
- Managed asset and liabilities of the corporation to mitigate risk and to ensure that the corporation did not incur any negative carry costs
- Managed the administration budget of the corporation prudently and ended the fiscal year with a net income of $247,285 and a reserve fund balance of $5.077 million

Strategic Goal 3

To explore and develop new methods and products for meeting the needs of our clients through contact with the investment community, the public sector, and academic research

Outcome:
A suite of financing products and programs that meet the needs of our clients

Measure:
Number of new products that are offered to municipalities and the take-up of the programs by municipalities

Results:
Survey results indicate a high degree of satisfaction with the long-term capital financing provided by the corporation. Clients have indicated they would like to see programs developed to address long-term financial planning, educational programs, and interim financing.

Operational Results:
- Developed a Debt Affordability Model to assist municipalities with answering the question, how much debt is too much debt for a particular unit
- Offered advice and assistance to clients on financing options (term and structure)
- Responded to the information needs of municipalities and the investment community

Strategic Goal 4

To help build financial management capacity in municipalities that promotes municipal capital project planning and financing

Outcome:
Municipal governments that have a stronger knowledge base on which to make financial management decisions

Measure:
Interest by municipalities in the development and use of new financing programs.

Results:
Worked with staff of Service Nova Scotia and Municipal Relations and/or municipal staff in developing responses to municipal capital financing proposals.

Operational results:
- Continued a joint committee with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations to promote Financial Capacity Management with a commitment for human and financial resources
- Developed best practices modelled on the Government Finance Officers Association (GFOA) recommended best practices; these best practices have been adapted for use by local governments in Nova Scotia
- Sponsored finance professionals in a municipal unit to attend the annual GFOA Conference
- Continued participation on joint committees (municipal and provincial)

Market Conditions 2004–2005

Economic Environment

The Canadian economic performance was reflected in real GDP growth of 2.8 per cent over the year driven by strong domestic demand led by consumer spending and business investment. Exports remained strong despite the ever-strengthening Canadian dollar. The Canadian dollar improved markedly against the US dollar over the 2004–2005 fiscal year, with a March 31, 2005 Bank of Canada rate of 1.2096 versus 1.3105 recorded a year earlier. The Canadian dollar was primarily the beneficiary of a broadly weakening US dollar. Economic fundamentals and strong commodity prices led by oil also combined to keep the Canadian dollar buoyant. Treasury yields reached all-time lows in both the US and Canada this year with 30-year Government of Canada yields hitting a low near 4.58 per cent and US Treasuries touching 4.37 per cent.

Interest Rates

The Province of Nova Scotia credit spreads improved relative to the benchmark Canadian provincial rates over the course of the year and are at recent lows versus their provincial peers. The Nova Scotia Municipal Finance Corporation's borrowing costs are based on the province's cost of funds.

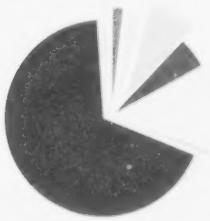
The corporation issued two pooled debenture issues and one single issue in 2004–2005. The all-in cost of funds to our clients is detailed below (the single issue all-in cost of funds is not included).

Spring Issue		**Fall Issue**	
Settled June 10, 2004		*Settled November 25, 2004*	
5 years	4.18%	5 years	4.12%
10 years	4.98%	10 years	4.69%
15 years	5.37%	15 years	5.00%
20 years	5.36%	20 years	5.14%
All-in cost	**5.08%**	**All-in cost**	**4.73%**

Overview of Loan Portfolio

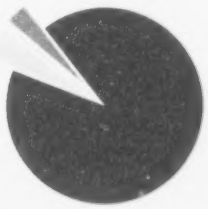
Loans Made during the Year

Purpose



Water	1.7%
Sewer	2.6%
Streets	7.9%
Buildings	4.9%
Equipment	10.6%
Recreation	2.9%
Solid Waste	0.7%
Sewage Treatment	67.8%
Other	0.9%

Jurisdiction



Rural	3.6%
Regional	91.2%
Town	5.1%
Municipal Enterprises	0.1%

Note: The amount of debentures issued during the year approximates the long-term loans made.

Loans to Municipal Units and School Boards

The corporation's loan portfolio consists of loans to school boards and hospitals that are serviced by the Province of Nova Scotia, loans to municipal units and enterprises that are serviced or guaranteed by Nova Scotia municipalities, and loans to health authorities guaranteed by the province. There are no arrears. The Nova Scotia Department of Service Nova Scotia and Municipal Relations performs the credit checks using ministerially approved debt policy guidelines. The Minister approves all capital borrowing requests by municipal units and municipal enterprises. The corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

During the year, long-term loans totalling $167,673,679 were made to 27 municipal units, and 1 municipal enterprise. They were used for the purposes as shown.

Purpose	Regional	Town	Rural	Municipal Enterprises	Total
Water	$ 521,000	$ 2,312,029	$ 0	$ 0	$ 2,833,029
Schools	400,000	0	0	0	400,000
Sewer	4,142,763	172,000	75,000	0	4,389,763
Streets	11,046,347	1,768,850	453,000	0	13,268,197
Buildings	3,640,083	2,460,000	2,025,000	158,000	8,283,083
Equipment	17,038,531	755,500	0	0	17,794,031
Recreation	4,307,564	39,800	490,000	0	4,837,364
Solid Waste	962,500	0	194,000	0	1,156,500
Sewage Treatment	110,595,000	925,000	2,145,500	0	113,665,500
Other	317,212	119,000	610,000	0	1,046,212
Totals	$ 152,971,000	$ 8,552,179	$ 5,992,500	$ 158,000	$167,673,679

Projects Administered

The accumulated loans outstanding at March 31, 2005 amount to $ 590.3 million, comprising $579.5 million to 68 municipal units and enterprises, $311,000 to six school boards, and $10.5 million to one district health authority. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction. The following table shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

Outstanding Borrowing Program

Funds totalling $167.6 million for loans to municipal units and municipal enterprises were raised through three issues in the Canadian domestic market. These issues were placed privately with the Province of Nova Scotia, which purchased a $26.4-million issue in June 2004, a $110-million issue in September 2004, and a $31.2-million issue in November 2004. Interest rate coupons ranged from 2.55 per cent to 5.94 per cent.

Other Borrowing Programs

The corporation offers borrowing programs beyond long-term financing via debenture issue as well as financial management capacity building programs to assist municipal units with long-term financial planning.

The Board of Directors has long supported a short-term borrowing program for its clients. The corporation's reserve fund is used to provide short-term loans to its clients that have completed their capital projects and are awaiting participation in the debenture issue. The terms of the short-term loan are for a period of not greater than one year; interest is charged at a rate of Bank of Montreal's prime lending rate less 1 per cent.

In addition to the short-term financing program, the Board of Directors has also approved a Bridge Financing program specific to projects cost-shared under the Canada–Nova Scotia Infrastructure Works Program (CNSIWP). Under the terms of the CNSIWP agreement, financing costs are an ineligible expense for cost-sharing purposes. To help offset some of the financing costs of these projects, the corporation offers financing at a rate of bankers' acceptance plus 100 basis points.

10-Year History of Loans to Municipal Units, School Boards, and Hospitals

at March 31st ($ millions)

	Municipal	Hospitals	School Boards	Total
1996	329.0	63.7	169.6	562.3
1997	319.9	63.0	153.4	536.3
1998	449.3	53.9	128.6	631.8
1999	493.7	53.9	116.2	663.8
2000	508.9	35.3	68.3	612.5
2001	463.4	11.8	25.0	500.2
2002	452.2	10.9	18.7	481.8
2003	469.7	11.0	2.2	482.9
2004	481.5	10.8	0.7	493.0
2005	579.5	10.5	0.3	590.3

Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/04	New Loans	Principal Repaid	Principal March 31/05
Regionals:				
Halifax	$ 245,078,630	$152,971,000	($ 41,905,857)	$ 356,143,773
Cape Breton	41,647,951	0	(7,029,849)	34,618,102
Queens	4,456,323	0	(539,314)	3,917,009
Total Regionals	**$ 291,182,904**	**$152,971,000**	**($ 49,475,020)**	**$ 394,678,884**
School Boards and Hospitals (guaranteed by the Province)	**$ 11,499,530**	**$ 0**	**($ 663,526)**	**$ 10,836,004**
Towns:				
Amherst	$4,028,809	$805,250	($695,001)	$4,139,058
Annapolis Royal	616,730	93,000	(84,216)	625,514
Antigonish	769,018	0	(110,000)	659,018
Berwick	1,836,147	0	(277,982)	1,558,165
Bridgetown	454,757	0	(53,126)	401,631
Bridgewater	3,597,256	0	(480,511)	3,116,745
Canso	899,521	0	(30,661)	868,860
Clark's Harbour	26,200	0	(13,100)	13,100
Digby	699,680	0	(120,280)	579,400
Hantsport	420,020	0	(80,930)	339,090
Kentville	6,404,018	342,000	(594,134)	6,151,884
Lockeport	81,000	0	(9,000)	72,000
Lunenburg	480,350	0	(155,850)	324,500
Mahone Bay	329,800	0	(168,700)	161,100
Middleton	1,309,182	0	(163,364)	1,145,818
Mulgrave	354,960	303,000	(56,240)	601,720
New Glasgow	5,170,358	651,315	(416,129)	5,405,544
Oxford	1,844,508	0	(173,776)	1,670,732
Parrsboro	69,488	0	(8,686)	60,802
Pictou	1,274,810	0	(66,597)	1,208,213
Port Hawkesbury	2,077,000	1,820,000	(141,250)	3,755,750
Shelburne	358,200	383,000	(29,850)	711,350
Springhill	1,813,840	1,085,000	(999,680)	1,899,160
Stellarton	891,819	0	(141,908)	749,911
Stewiacke	765,000	563,714	(47,250)	1,281,464
Trenton	737,673	222,000	(183,025)	776,648
Truro	4,260,000	800,000	(243,000)	4,817,000
Westville	1,149,139	0	(107,419)	1,041,720
Windsor	2,410,400	247,900	(201,695)	2,456,605
Wolfville	5,048,110	1,236,000	(1,489,944)	4,794,166
Yarmouth	4,735,834	0	(537,467)	4,198,367
Total Towns	**$ 54,913,627**	**$ 8,552,179**	**($ 7,880,771)**	**$ 55,585,035**

By Jurisdiction	Principal March 31/04	New Loans	Principal Repaid	Principal March 31/05
Rurals:				
Municipalities				
Annapolis	$ 4,558,484	$ 0	($ 1,060,935)	$ 3,497,549
Antigonish	1,176,666	0	(69,167)	1,107,499
Barrington	1,098,396	722,500	(146,518)	1,674,378
Chester	1,546,802	565,000	(326,267)	1,785,535
Colchester	17,146,832	0	(2,345,166)	14,801,666
Cumberland	1,599,078	298,000	(249,139)	1,647,939
Guysborough	2,630,500	0	(106,000)	2,524,500
Hants East	4,744,019	1,063,000	(314,152)	5,492,867
Hants West	533,164	0	(76,167)	456,997
Inverness	710,000	0	(260,000)	450,000
Kings	8,025,475	1,244,000	(1,041,807)	8,227,668
Lunenburg	5,559,700	0	(208,000)	5,351,700
Pictou	2,745,117	0	(1,308,051)	1,437,066
Richmond	640,000	1,900,000	(80,000)	2,460,000
Shelburne	25,500	0	(8,500)	17,000
Victoria	1,887,000	0	(131,000)	1,756,000
Yarmouth	855,000	0	(67,500)	787,500
Villages				
Baddeck	1,265,110	0	(67,493)	1,197,617
Bible Hill	360,000	0	(36,000)	324,000
Chester	154,000	0	(11,000)	143,000
Kingston	242,500	200,000	(32,500)	410,000
Lawrencetown	25,500	0	(8,500)	17,000
New Minas	300,000	0	(175,000)	125,000
St. Peters	408,333	0	(19,100)	389,233
Port Williams	144,500	0	(34,500)	110,000
Westport	33,000	0	(5,500)	27,500
Total Rurals	$ 58,414,676	$ 5,992,500	($ 8,187,962)	$ 56,219,214
Municipal Enterprises:				
Braemore Home	$ 51,094	$ 0	($ 51,094)	$ 0
Bridgewater Public Service Commission	4,760,000	0	(290,000)	4,470,000
Digby Housing Corporation	769,000	0	(54,334)	714,666
Glen Haven Manor	1,026,500	0	(31,200)	995,300
Halifax Regional Water Commission	66,543,000	0	(3,251,250)	63,291,750
Lunenburg Home for Special Care	947,000	0	(18,000)	929,000
R. K. MacDonald	1,644,767	158,000	(271,672)	1,531,095
Seaview Manor	771,750	0	(85,750)	686,000
Villa Acadienne	426,800	0	(42,900)	383,900
Total Enterprises	76,939,911	158,000	(4,096,200)	73,001,711
Total Loans	$ 492,950,648	$ 167,673,679	($ 70,303,479)	$ 590,320,848

Financial Management Capacity-Building Programs

The NSMFC and the Association of Municipal Administrators of Nova Scotia (AMA) have formed a joint committee with the goal of developing financial management best practices for use by municipalities in Nova Scotia.

The committee strives to be representative of all municipalities in the province. It includes finance professionals working in towns and regional and rural municipalities, as well as representatives from the Department of Service Nova Scotia and Municipal Relations. The committee uses recommended practices that have been developed by the Government Finance Officers Association (GFOA) and adapts them to fit to Nova Scotia legislation and practices.

Municipal Finance Training and Capacity Building Program

The purpose of the Municipal Finance Training and Capacity Building Program is

- to enhance the quality of municipal financial services provided by local government finance professionals in Nova Scotia by exposing them to current issues, best practices, and trends in Canadian and international local government finance
- to encourage the development of a network of municipal finance specialists in Nova Scotia for the purpose of sharing knowledge and best practices

The NSMFC, in partnership with the Department of Service Nova Scotia and Municipal Relations, sponsors two financial professionals working in municipal government in Nova Scotia to attend the annual GFOA Conference. This international conference is dedicated to the development of financial excellence in local government, through the use of best practices and benchmarking.

Acknowledgements

The board has seen a number of changes since the corporation's last annual report. Mr. Kevin Malloy retired from the board during the year. We wish to thank him for his contribution to the corporation during his time on the Board, and we welcome Ms. Elizabeth Cody, Assistant Deputy Minister of the Department of Finance as our newest member. Finally, the board would like to acknowledge the contribution of Mr. Brian Stonehouse as Chair of the corporation over the past five years.

We acknowledge the administrative support and co-operation received from the Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations. Each of these departments has contributed the services of staff, which provides considerable assistance to the corporation. The Directors wish to thank the staff of the corporation for their excellent contribution.

Management's Responsibility for Financial Statements

The financial statements of Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared in accordance with PSAB and CICA's accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the annual report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The financial statements have been examined independently by the external auditors, Grant Thornton LLP, whose responsibility it is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The financial statements and all information in the annual report have been approved by the Board of Directors. The external auditors have full and free access to the board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.

Auditors' Report to the Directors

To the Directors of Nova Scotia Municipal Finance Corporation

We have audited the balance sheet of the Nova Scotia Municipal Finance Corporation as at March 31, 2005 and the statements of revenue, expenditure and reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Halifax, Nova Scotia
April 28, 2005

Balance Sheet

Year Ended March 31, 2005 with comparative figures 2004

	2005	2004
Assets		
Current Assets:		
Cash	$ 16,658	$ 36,715
Short term investments, at cost (market - $4,526,403; 2004 - $4,187,000 (Note 9))	4,526,403	4,187,000
Accrued interest receivable	9,989,752	10,284,626
HST receivable	495	331
Principal due within one year on loans to units	81,038,164	70,303,478
	95,571,472	84,812,150
Long-term Assets:		
Loans to units (Note 3)	590,320,848	492,950,648
Less principal included in current assets	81,038,164	70,303,478
	509,282,684	422,647,170
Investments, at amortized cost (market - $445,213; 2004 - $469,731 (Note 9))	441,811	456,414
	509,724,495	423,103,584
Deferred Charges:		
Discount on debenture debt	2,388,291	2,616,884
Less accumulated amortization	1,658,139	1,699,284
	730,152	917,600
	$ 606,026,119	$ 508,833,334
Liabilities and Equity		
Current Liabilities:		
Accounts payable	$ 34,472	$ 39,428
Due to municipal units	136,217	133,286
Accrued interest payable	9,956,536	10,249,709
Principal due within one year on debenture debt	80,999,289	70,256,012
	91,126,514	80,678,435
Employee obligations (Note 8)	74,520	65,073
Long-term Debt		
Debentures payable (Note 5)	590,021,242	492,603,254
Less principal included in current liabilities	80,999,289	70,256,012
	509,021,953	422,347,242
Deferred Credits		
Discount on loans to units	2,381,966	2,611,192
Less accumulated amortization	1,656,296	1,698,785
	725,670	912,407
Equity		
Reserve Fund	5,077,462	4,830,177
	$ 606,026,119	$ 508,833,334

See accompanying notes to the financial statements

On behalf of the Board

Director

Director

Statements of Revenue, Expenditure and Reserve Fund

Year Ended March 31, 2005 with comparative figures 2004

	2005	2004
Revenue		
Interest on loans to units	$ 31,346,386	$ 30,001,901
Amortization of discount on loans to units	216,518	251,819
Interest on short term investments	118,262	138,038
Recovery of issue costs	1,054,247	269,585
Reserve fee	419,184	182,793
	33,154,597	30,844,136
Expenditure		
Interest on debenture debt and short term loans	31,319,288	29,970,691
Amortization of discount on debenture debt	217,228	252,437
Debenture issue expenses	1,056,502	267,875
Administrative expenses	314,294	310,413
	32,907,312	30,801,416
Net Revenue	247,285	42,720
Reserve Fund, Beginning of the Year	4,830,177	4,787,457
Reserve Fund, Ending of the Year	$ 5,077,462	$ 4,830,177

See accompanying notes to the financial statements.

Statement of Cash Flows

Year Ended March 31, 2005 with comparative figures 2004

	2005	2004
Cash provided by (used for)		
Operations		
Net revenue	$ 247,285	$ 42,720
Add (deduct) non-cash items		
Amortization of discount on loans to units	(216,518)	(251,819)
Amortization of discount on debenture debt	217,228	252,437
Amortization of premiums on investments	14,603	(23,414)
Change in non-cash working capital (Note 7)	(486)	(14,874)
Increase in accrued public service award	9,447	22,500
	271,559	27,550
Investments		
Issue of loans of $167,673,679 to units on security of debentures, net of discounts of $29,781 (2004 - $73,117,362 net of discounts of $200,338)	(167,643,898)	(72,917,024)
Principal received on loans to units	70,303,478	63,054,835
Principal due to municipal unit	-	133,286
Principal paid on maturing investments	-	(1,608,055)
	(97,340,420)	(11,336,958)
Financing		
Issue of debentures of $167,674,000, net of discounts of $29,781 (2004 - $73,108,000 net of discounts of $200,319)	167,644,219	72,907,681
Principal payment on debenture debt	(70,256,012)	(62,965,496)
	97,388,207	9,942,185
Increase (Decrease) in Cash	319,346	(1,367,223)
Cash Position, Beginning of Year	4,223,715	5,590,938
Cash Position, End of Year	$ 4,543,061	$ 4,223,715

Cash position is defined as cash and short-term investments. The cash position at year end is made up of the following:

	2005	2004
Cash	$ 16,658	$ 36,715
Short term investments	4,526,403	4,187,000
	$ 4,543,061	$ 4,223,715

See accompanying notes to the financial statements

Notes to the Financial Statements

Year Ended March 31, 2005

The Corporation was created by the Municipal Finance Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980 and has a March 31 fiscal year-end. The objective of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, regional school boards, and hospitals through a central borrowing authority.

1. Summary of significant accounting policies

A) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

B) The Reserve Fund was created from accumulated surpluses and interest earnings on funds which had been advanced by the Province of Nova Scotia and interest on other surplus monies. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide funds which may be required for administrative purposes and timing differences.

C) Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management does not anticipate that actual results will differ materially from those estimates.

D) The Corporation recognizes income and expenses on an accrual basis.

2. Financial instruments

Fair Value

The fair values of cash, accrued interest receivable, other receivables, accounts payable, accrued interest payable and principal due within one year on loans to units and debenture debt are assumed to approximate their carrying amounts because of their short term to maturity. The fair values of investments are assumed to approximate quoted market values as disclosed in the financial statements. As the Corporation is a special purpose entity, and there is no comparable outside market, the fair value of the loans and debentures payable was not determinable.

Interest rate risk

The Corporation's mandated rate of interest charged on loans to units is directly correlated to its cost of borrowing, thereby providing a hedge against equity erosion. As the Corporation normally holds the debentures to maturity, book values of the investments and debentures have not been adjusted to reflect the differences.

Credit risk

Due to existing statutory provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

It is management's opinion that the Corporation is not exposed to significant interest or credit risks arising from financial instruments.

3. Loans to units

A) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.0% to 12.5%.

B) Principal payments receivable in each of the next five years are as follows:

2006	$ 81,038,164
2007	78,525,636
2008	75,073,251
2009	60,981,244
2010	56,387,989

4. Trust funds under administration

The Corporation has no Trust Funds under its administration for the year ended March 31, 2005.

5. Debentures payable

A) The debenture debt outstanding at March 31, 2005 totalling $590,021,242 (2004 - $492,603,254) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exception of Series "AT" which is a private placement.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
N	Apr. 2/85	2005	12.500	$ 1,290,000
AI*	May 2/95	2005	9.125	5,595,000
AJ	Nov. 14/95	2005	8.125	7,390,000
AK*	May 14/96	2005 to 2006	7.750-8.000	15,822,000
AL	Oct. 28/96	2005 to 2006	7.500	7,417,000
AM*	May 12/97	2005 to 2007	7.000	20,634,000
AN*	Oct. 17/97	2005 to 2007	6.000-6.250	20,168,000
AP*	Jan. 30/98	2006 to 2019	5.625-6.125	35,793,000
AQ	May 15/98	2005 to 2008	5.375-5.500	17,263,000
AR*	Dec. 1/98	2005 to 2008	5.500-5.625	26,381,000
AS*	May 17/99	2005 to 2009	5.250-5.375	24,562,000
AT	May 28/99	2005 to 2015	1.000	1,856,250
AU*	Dec. 22/99	2005 to 2009	6.625-6.750	23,120,000
AV*	June 1/00	2005 to 2010	6.625-6.875	15,540,000
AW*	Nov. 9/00	2005 to 2010	6.125-6.375	16,577,000
AX*	May 29/01	2005 to 2011	5.500-6.250	22,563,000
AY*	Nov. 7/01	2005 to 2011	4.625-6.000	14,068,000
AZ*	May 15/02	2005 to 2012	4.875-6.125	43,917,000
BA*	Nov. 7/02	2005 to 2017	4.000-6.000	25,633,000
BB*	Jan. 9/03	2005 to 2023	5.913	10,524,992
BC*	May 28/03	2005 to 2018	3.875-5.750	46,024,000
BD*	Oct. 15/03	2005 to 2018	3.125-5.375	20,209,000
BE*	June 10/04	2005 to 2019	2.550-5.750	26,447,000
BF*	Sept 1/04	2005 to 2024	2.840-5.940	110,000,000
BG*	Nov 25/04	2005 to 2019	3.195-5.325	31,227,000
				$ 590,021,242

** Placed directly with the Province of Nova Scotia.*
Interest is payable semi-annually, except for Series "AT", which is payable annually.

B) Principal payments due in each of the next five years are as follows:

2006	$ 80,999,289
2007	78,251,723
2008	75,049,383
2009	60,973,342
2010	56,440,679

6. Taxes

The Corporation is not subject to provincial or federal taxes.

7. Change in non-cash working capital

	2005	2004
Accrued interest receivable	$ 294,875	$ 86,468
HST receivable	(164)	1,573
Accounts payable	(4,955)	(7,771)
Accrued interest payable	(290,242)	(95,144)
	$ (486)	$ (14,874)

8. Employee obligations

Public service awards

As at March 31, 2005, the Corporation has recorded a liability in the amount of $74,520 (2004 - $65,073) in respect of the provincial public service award for the employees of the Corporation.

Employee future benefits / pension

Permanent employees are members of the Nova Scotia Public Service Superannuation Plan. The cost of pension benefits is the responsibility of the Province of Nova Scotia and accordingly no provision is included in the Corporation's financial statements for pension related amounts. The pension related assets and liabilities are accounted for in the Public Accounts of Nova Scotia.

9. Investments

The Corporation holds short-term and long-term investments. The investments mature at various intervals during 2005, the interest rates for these investments range from 2.48% to 8.125%.